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OUTLOOK

FOR THE ECONOMY AND REAL ESTATE

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Outlook for the Economy and Real Estate

Aggregate Economy

It has become quite apparent that economic activity has begun to dampen. The downward revision in first quarter real GNP growth to 0.7 percent marks the smallest growth rate since the expansion began in late 1982. Contributing to the large slowdown in real economic activity was a further deterioration in the trade deficit as growth in imports exceeded growth in exports. Furthermore, the slower pace in final domestic sales also led to lower growth, reflecting the slowing in consumer spending and borrowing; both had been intensified by the absence of tax refunds. A modest rebound in economic activity is expected during the second quarter as the IRS tries to meet its June 1 deadline. This will provide a small boost to consumption. However, once the windfall gains from tax refunds wears off economic activity should continue slowing.

Underlying the weakening in economic activity through 1985 will be the mounting debt burdens by the U.S., consumers and businesses. The sharp deterioration in the debt position of the U.S. relative to other countries shows no sign of improvement. The trade deficit deteriorated further in April, recording the largest monthly increase for all of 1985. Domestic businesses have been unable to trade competitively not only in domestic markets but international markets as well because the dollar has been so strong relative to other currency. Therefore, since the U.S. continues to buy more foreign goods and services then they are able to sell, they must borrow in order to finance this trade deficit. The result has been an undesirable accumulation of inventories and slowing production in the U.S., leading to enormous drains on real economic activity.

The increased reliance by both consumers and businesses on credit threatens the strength of economic activity in the near term. It was originally this strong demand by both consumers and business that stimulated the recovery. Yet, because spending growth has exceeded income gains over the past year, consumers had to borrow or deplete their savings to accomodate their spending. As a result of the high debt burdens now being sustained by both groups and the possibility of a further slowing in personal income as well as corporate profits, consumers and businesses are not likely to launch another spending spree like 1984. Rather, consumer and business spending is likely to remain at a modest pace through the remainder of this year as they attempt to reduce their debt burdens. This will continue to dampen output growth through 1985. For all of 1985, output growth should be 2 to 2 1/2 percent compared to an average of 5.2 percent during the previous two years.

However, with this slower growth the resulting decline in demand for funds for investment will allow interest rates to decline and remain at low levels. This should result in improvement in the interest-sensitive sectors, especially housing, and prevent the economy from experiencing a recession. Auto sales, after recording strong gains during the first Half of May due to "cut rate" financing incentives, had begun to falter by months end, and are not expected to record as strong gains as previously expected. Therefore, the housing industry is expected to provide the stimulus to prevent a recession or too-slow growth while other sectors of the economy are expected to remain sluggish. Growth of overall economic activity should improve modestly in 1986 followed by more rapid output growth in 1987.

Employment and Inflation

The outlook for inflation remains favorable. The modest 0.4 percent increase in the Consumer Price Index (CPI) in April occurred in response to recent increases in energy prices from their previously low levels. Further, the Producer Price Index (PPI) for final goods, after remaining virtually unchanged from December to February, increased a modest 0.3 percent in April resulting in a total increase during the past 12 months of only 0.7 percent. This trend is expected to continue and inflation, as measured by the CPI, is expected to increase a modest 3.6 percent for 1985 before accelerating slightly in 1986.

Nonfarm payroll employment increased 0.3 percent from April to May. The entire increase was attributable to an increase in employment in the service sector, while employment in the good-producing sector remained stagnant. In fact, because employment actually declined in the manufacturing sector, the only reason employment in the goods producing sector didn't decline was the offsetting increase in construction employment that accompanied it. Employment growth has not increased sufficiently to satisfy all new entrants into the labor force, which typically swells at this time of year as high school and college students seek summer jobs. Subsequently, the civilian unemployment rate has remained unchanged over the past three months, further underscoring the slowing in the economy.

Monetary Policy and Interest Rates

In view of mounting evidence that the economy had slowed significantly, in March the Federal Open Market Committee of the Federal Reserve Board (FED) voted to ease credit conditions in an effort to lower interest rates and spin the economy. As shown in Table 1 both short-term and long-term interest rates have fallen nearly 1 1/2 percentage points since then, although mortgage rates have declined more slowly. The decline in market rates prompted the FED to reduce its discount rate from 8 percent to 7 1/2 percent on May 20 which provided additional optimism to credit markets.

M1, the nation's basic money supply, has been increasing rapidly since April in response to this easing by the FED. However, given the relatively low level of capacity utilization in the economy and the below-normal growth of the velocity of money, the FED appears to be appropriately unconcerned with the rapid growth of M2. In fact, given the continued weakness in the economy during the second quarter it is very likely that interest rates will continue to trend downward in the weeks ahead as credit markets anticipate further easing of credit conditions by the FED with another cut in the discount rate to 7 percent. This edging down of interest rates should continue through the third quarter. However, as the economy responds to these lower rates in the fourth quarter of this year, short-term rates should start to trend upward. Long-term rates should continue their downward trend well into 1986 as investors grow more confident that inflation remains under control.

Table 1

Selected Interest Rate

	Treasury Bills				Mortgage Commitment Rate	
	3 Months	6 Months	1 Year	AAA Corporate Bonds	Fixed Rate	Adjustable Rate
Jan	7.74	8.04	8.34	12.13	13.66	11.83
Feb	8.12	8.20	8.44	12.0	13.45	11.59
March	8.50	8.84	9.01	12.5	13.77	11.54
April	7.97	8.31	8.47	12.24	13.81	11.65
May	7.50	7.75	7.89	11.74	13.51	11.34
Week ended June 7	6.97	7.16	7.22	11.02	NA	NA

NA - Not available

Fiscal Policy

Despite the continuing efforts of Congress and the Administration to implement $50 billion in budget cuts next year, the deficit should increase in 1986 to $220 billion before declining to $210 billion in 1987. However, the deficit as a percent of GNP and net domestic savings should decline into 1986 and 1987.

The introduction of Reagan's tax reform proposal could lead to increases in the deficit over the next few years. This would occur because the proposed cuts in spending would not offset the tax cut due to the absence of revenue neutrality. Under the Reagan tax proposal, deficits could increase by as much as $50 billion over the next 3 years.

Real Estate Markets

The one bright spot in the economy has been the rebound in the housing market. Lower mortgage interest rates, accompanied by the strong demand for housing, boosted the seasonally adjusted annual rate of existing single family home sales to 3.04 million units in April, comparable to the March revised rate of 3.03 million units. This improvement in resales is expected to continue through this year with 3.1 million existing single family homes expected to be sold for all of 1985, making 1985 the best year for home resales volume since 1979. As mortgage commitment rates remain near 12 percent in 1986, existing home sales should continue to improve with resales reaching 3.15 million units for all of 1986.

Because builders often buy large blocks of below market financing, new home sales have not been as responsive as existing home sales to recent declines in mortgage interest rates. However, the demand for new homes is far from weak with the seasonally adjusted annual rate of new single family home sales at 612,000 in April, the fifth consecutive month it has been above the 600,000 level. New home sales are expected to reach 644,000 for all of 1985.

Housing starts improved a modest 1.6 percent from March to April. The increase occurred almost entirely in the multi-family sector. The volatility of multifamily starts since January has occurred mainly in response to fear about anti-housing provision of the second Treasury Tax proposal, which could, among other things, adversely affect rental housing completed later this year. For all of 1985, total housing starts are expected to total 1.85 million units. By 1986, housing starts should reach 1.8 million units before declining slightly into 1987.

The recent declines in mortgage interest rates accompanied by only modest increases in home prices has been improving affordability and enabling an increasing number of families the chance to own a home. The NAR Housing Affordability Index for resale homes rose to 90.3 in April, the first time in more then 5 years that the index has been in the 90's. Affordability is expected to continue to improve through 1985 as mortgage interest rates continue to edge downward.

The outlook for nonresidential construction remains mixed. Office building occupancy rates will improve during the next few years but slow enough to result in a decline in construction through 1986. In addition, as slow economic activity dominates, industrial construction is expected to show only modest gains in 1985 and 1986.

Construction of stores and other commercial space, unlike the other areas of nonresidential construction, are expected to remain strong. This will occur in response to the strong activity in residential investment as new developments will need support services through retail and commercial space.

Table 2

Commercial and Industrial Building Contracts

	Stores and Other Commercial		Office Buildings		Industrial Buildings	
Year	millions of sq ft	percent change	millions of sq ft	percent change	millions of sq ft	percent change
1981	337	-11%	325	+15%	187	-13%
1982	245	-27%	261	-20%	118	-37%
1983	362	+48%	281	+ 8%	107	-37%
1984	477	+32%	317	+13%	143	+33%
1985[f]	496	+ 4%	275	-13%	150	+ 5%
1986[f]	486	- 2%	265	- 4%	160	+ 7%

f: forecast

Source: Historical Data: DRI, Review of the U.S. Economy, December 1984.
Forecasts: NATIONAL ASSOCIATION OF REALTORS®

Special Supplement

The Impact of the Reagan Tax Reform Proposal

President Reagan has introduced his tax reform proposal for "Fairness, Growth, and Simplicity" and sent it to the Congress. Our analysis of the proposal reveals that it would have much the same impact as the Treasury's proposal introduced last November: a cut in personal taxes financed through an increase in taxes on income generated by capital. As a result, there is a shift in the composition of GNP toward consumption and away from investment. In the long-run the effect of the lower level of investment compounds and results in a lower level of GNP and lower living standards for the average person and family.

Long-lived assets such as real estate would be particularly hard hit by this proposed change in the tax code. The loss of property tax deductibility and the lowering of marginal personal tax rates would increase the after-tax cost of owner-occupied homes, resulting in a decline in both existing home sales and starts of new homes. The yield on investments in commercial real estate would decline due to less adequate depreciation, restrictions on mortgage interest deductibility by some types of real estate investors, and numerous other proposed changes in tax law.

Further, analysis reveals that it is very unlikely that these negative impacts on real estate would be offset by a decline in interest rates, as was argued with Treasury I. The increase in taxes on income from capital reduces the supply of loanable funds in the economy to a far greater extent than that supply is increased through the reduction in personal taxes. The net impact is a decline in the supply of loanable funds which more than offsets the effect of lower marginal tax rates. In addition, the Reagan proposal includes several overly optimistic assumptions about the revenue provided by the new tax system. With more realistic assumptions it is likely that the package would not be revenue neutral, adding as much as $50 billion to the federal deficit within three years. Thus, it is quite likely that this proposal will result in higher interest rates which would further reduce capital formation.

Owner-Occupied Homes

Table 3 presents a comparison of the provisions of current tax law which impact the after-tax cost of homeownership with Treasury I and the Reagan proposal. Current law is expressed as it is believed it will be in 1986 when the zero bracket amount (ZBA) or standard deduction, exemptions, and tax brackets are indexed for inflation.

The Reagan proposal would raise the taxpayer and spouse exemption as well as the dependent exemption. Increasing the value of exemptions tends to raise after-tax homeownership costs since, for a given level of gross income, larger exemptions result in lower taxable income and so are likely to result in a lower marginal tax rate.

Table 3

Comparison of Tax Provisions Impacting After-Tax Homeownership Costs
Under Current Law, Treasury I, and Reagan Proposal

	1986 Current Law	Treasury I	Reagan Proposal
PERSONAL MARGINAL TAX RATES	14 rate brackets from 11 to 50%	3 rate brackets 15%, 25%, 35%	3 rate brackets 15%, 25%, 35%
EXEMPTIONS			
Self, spouse	$1,080	$2,000	$2,000
Dependents	$1,080	$2,000	$2,000
Elderly	$1,080	Credit	Credit
Blind	$1,080	Credit	Credit
ZERO BRACKET AMOUNTS			
Single	$2,480	$2,800	$2,900
Joint	$3,670	$3,800	$4,000
Heads of Household	$2,480	$3,500	$3,600
INDEXED RATE BRACKETS, EXEMPTIONS, AND ZBA	Yes	Yes	Yes
PERSONAL DEDUCTIONS			
Mortgage Interest			
Principle Residence	Yes	Yes	Yes
Secondary Residence	Yes	Treated as other personal interest.	Treated as other personal interest.
Other personal interest	Yes Investment interest limited to $10,000 over investment income.	Limited to $5,000 plus passive investment income. (Expanded definition of interest subject to limit) Amount above $5,000 indexed for inflation.	Limited to $5,000 plus passive investment income. (Expanded definition of interest subject to limit)
Real Property Taxes	Yes	No	No
State and Local Income Taxes	Yes	No	No
Medical Expenses	Yes, above 5% of AGI	Yes, above 5% of AGI	Yes, above 5% of AGI

Table 3 (continued)

	1986 Current Law	Treasury I	Reagan Proposal
Charitable Contributions	Yes, for itemizers and nonitemizers.	Yes, above 2% of AGI. But no deduction for unrealized gains on contributed property. Also, no deduction for nonitemizers.	Deductible for itemizes but not for nonitemizers.
Two-Earner Deduction	Yes, 10% of lower salary	No	No
FRINGE BENEFITS			
Health Insurance	Not taxed	Annual premiums over $840 for individual coverage and over $2,100 for family coverage taxed.	First $120 of premiums per year for individual coverage and and $300 for family coverage taxed.
Group-term life insurance	Premiums for insurance over $50,000 taxed.	Taxed	Premiums for insurance over $50,000 taxed.
Other	Not taxed	Taxed	Not taxed
OTHER INDIVIDUAL ITEMS			
Rollover of Capital Gains on Principal Residence	Capital gain tax deferred if seller purchases another residence costing at least as much as the one sold within two years.	Yes	Yes
One-time Exclusion on Capital Gains on Principal Residence	One-time exclusion of gain up to $125,000 on sale of principal residence for taxpayers 55 or older.	Yes, plus exclusion is indexed for inflation.	Same as current law.
MUNICIPAL BONDS			
Public purpose	Tax-exempt	Tax-exempt	Tax-exempt
Private purpose	Tax-exempt	Taxed	Taxed

SOURCE: NATIONAL ASSOCIATION OF REALTORS®.

The Reagan tax reform proposal also raises the ZBA to $4,000 for a joint return, a slightly larger increase than was proposed in Treasury I. Increasing the ZBA also reduces the value of a given dollar amount of itemized deductions since it is the amount of such deductions above the ZBA by which taxable income is reduced.

The mortgage interest deduction is retained for principal residences but other personal interest deductions are limited to $5,000 plus the amount of passive investment income. Other personal interest includes consumer interest, mortgage interest on a second home, interest on loans to purchase stocks, bonds, land, etc., and a limited partner's pro-rata share of the interest expense of a limited partnership. Investment income includes income from assets such as stocks and bonds. The deductibility of all state and local taxes, including real property taxes, are also repealed.

The existing rollover of capital gains on the sale of a principal residence is retained as well as the one-time exclusion of capital gains up to $125,000 on the sale of a principal residence by taxpayers 55 or older.

Due to both the loss of property tax deductibility and the diminished tax savings provided by the mortgage interest deduction, which results from lower marginal tax rates and the increased ZBA, the after-tax cost of ownership of a principal residence would rise under the Reagan proposal. Table 4 presents estimates of the magnitude of this increase in annual after-tax cost for three home prices - $50,000, $85,000 and $150,000. Based on a typical minimum income required to qualify for mortgage loan to purchase such a home, the annual after-tax cost of a $50,000 home would increase about $225 or four percent. The impact on higher priced homes is more severe due to the larger decline in marginal tax rates for the typical buyers of these homes. The annual after-tax cost of an $85,000 home would rise by about $950 or 10 1/2 percent while the after-tax cost of a $150,000 would rise by about $2,500 or 19 percent.

Table 5 presents the contribution of the loss of property tax deductibility to the increase in after-tax cost of an $85,000 home. There are two distinct ways to evaluate this contribution, to assume that under current law property taxes would no longer be deductible or to assume that property taxes would be deductible under the Reagan proposal. In the former case (Case I), the loss of property tax deductibility contributes $372 or 40 percent of the total increase in after-tax cost while in the latter case (Case II) it contributes $255 or 27 percent of that increase.

Commercial Real Estate

Table 6 presents the impact of the Reagan proposal on a typical commercial real estate investment assuming interest rates remain unchanged. Under the Reagan proposal, the impacts will vary depending on the legal form of ownership, whether it is a sole proprietor or general or limited partners. In general, the Reagan proposal will most adversely affect the limited partnership because they are more limited in their ability to deduct interest.

Table 4

Comparison of After-Tax Homeownership Costs
Under Current Law, Treasury I and the Reagan Tax Reform Proposals 1/
(Mortgage Rates Unchanged)

EXAMPLE #1 — Cost of Home - $50,000; Required Income - $21,500

	1986 Current Law	Treasury I	Reagan Proposal
Before Tax Cost ($)	$6,200	$6,200	$6,200
Marginal Tax Rate (%)	16%	15%	15%
Tax Savings ($)	405	210	180
After Tax Cost ($)	5,795	5,990	6,020
Change in Cost ($)	- -	195	225
Change in Cost (%)	- -	3.4%	3.9%
Change in Home Value (%)	- -	-3.6%	-4.2%

EXAMPLE #2 — Cost of Home - $85,000; Required Income - $36,000

	1986 Current Law	Treasury I	Reagan Proposal
Before Tax Cost ($)	$10,540	$10,540	$10,540
Marginal Tax Rate (%)	25%	15%	15%
Tax Savings ($)	1,664	756	726
After Tax Cost ($)	8,876	9,784	9,814
Change in Cost ($)	- -	908	938
Change in Cost (%)	- -	10.2%	10.6%
Change in Home Value (%)	- -	-9.9%	-10.2%

EXAMPLE #3 — Cost of Home - $150,000; Required Income - $ 64,000

	1986 Current Law	Treasury I	Reagan Proposal
Before Tax Cost ($)	$18,600	$18,600	$18,600
Marginal Tax Rate (%)	38%	25%	25%
Tax Savings ($)	5,431	2,950	2,900
After Tax Cost ($)	13,169	15,650	15,700
Change in Cost ($)	- -	2,481	2,531
Change in Cost (%)	- -	18.8%	19.2%
Change in Home Value (%)	- -	-16.9%	-17.2%

1/ All examples assume a 20 percent downpayment, a 30 year fixed rate mortgage with a 13 percent interest rate, and property taxes equal to 2 percent of the home value. Required income assumes 25 percent of income is devoted to principal and interest payments. All tax calculations assume a joint return with four exemptions.

SOURCE: NATIONAL ASSOCIATION OF REALTORS®.

The first case is for property owned by a sole proprietor or general partners. In this case, the 10 year Internal Rate of Return (IRR) would decline from 18.6 percent under current law to 16.8 percent under the Reagan proposal. This would result in a 14 percent decline in the properties value in the short-run. Therefore, long-term rents would have to increase by 8 percent in order for the 10 year internal rate of return to be restored to the level under current law.

The second case assumes limited partners having full use of the cap on other personal interest of $5,000 plus net investment income. In this example, the 10 year internal rate of return would decline to 14.9 percent, again this compares to 18.6 percent under current law. The result would be a 16 percent decline in the value of property. Long-term rents would, therefore, have to increase 10 percent in order for the IRR to be restored to the level under current law.

Those hardest hit by the Reagan proposal will be limited partners who have exhausted their ability to deduct other personal interest so no interest can be deducted. In this case the 10 year IRR will decline dramatically from current law of 18.6 percent to 7.8 percent. In the short-run, property values would decline by as much as 38 percent until rents are increased. In the long-run rents would have to increase 31 percent in order to restore the 10 IRR received under current law.

Macroeconomic Impacts

Table 7 provides the preliminary results of our macroeconomic simulation of the full Reagan proposal. These results indicate that total fixed capital formation would decline, leading to slower growth of GNP. Interest rates increase slightly in the short-run due to a net decline in loanable funds but then rise substantially in the long-run due to the added impact of an expanding deficit.

Table 5

Determination of the Impact of the
Loss of Property Tax Deductibility on
the After-Tax Cost and Value of
an $85,000 Owner-Occupied Home

Case I

	1986 Current Law	1986 Current Law Without Property Tax Deduction	Reagan Proposal	Loss of Property Tax Deductibility as a Percent of Total Impact
Before Tax Cost ($)	$10,540	$10,540	$10,540	
Tax Savings ($)	1,664	1,292	726	
After Tax Cost ($)	8,876	9,248	9,814	
Change in Cost ($)	--	372	938	40%
Change in Cost (%)	--	4.2%	10.6%	
Change in Value ($)	--	-3,791	-8,653	44%
Change in Value (%)	--	-4.5%	-10.2%	

Case II

	1986 Current Law	Reagan Proposal with Property Tax Deduction	Reagan Proposal	Loss of Property Tax Deductibility as a Percent of Total Impact
Before Tax Cost ($)	$10,540	$10,540	$10,540	
Tax Savings ($)	1,664	981	726	
After Tax Cost ($)	8,876	9,559	9,814	
Change in Cost ($)	--	683	938	27%
Change in Cost (%)	--	7.7%	10.6%	
Change in Value ($)	--	-6,480	-8,653	25%
Change in Value (%)	--	-7.6%	-10.2%	

SOURCE: NATIONAL ASSOCIATION OF REALTORS®

Table 6

Impact of Treasury I and Reagan Proposal
on a Typical Commercial Real Estate Investment [1]
(Mortgage Rates Unchanged)

Description	1st Year Taxable Income	1st Year After-Tax Cash Flow	10-Year IRR [2]	10-Year NPV [3]	Long-Term Rents [4]	Change in Value [5]
Treasury I						
Case A	+118%	-122%	-39%	- 82%	20%	-28%
Case B	---	---	---	---	---	---
Case C	+187%	-174%	-62%	-147%	32%	-39%
Reagan Proposal						
Case A	+ 45%	- 67%	-17%	- 27%	8%	-14%
Case B	+ 94%	-104%	-26%	- 48%	10%	-16%
Case C	+171%	-162%	-61%	-144%	31%	-38%

Case A: Property owned by sole proprietor or general partners.

Case B: Limited partners having full use of the cap on other personal interest of $5,000 plus net investment income, here interpreted as their pro-rata share of net operating income less depreciation.

Case C: Limited partners who have exhausted their ability to deduct other personal interest so no interest can be deducted.

SOURCE: NATIONAL ASSOCIATION OF REALTORS®.

Table 6 (Continued)

1/ Assumptions underlying typical commercial real estate investment.

Basis: $1,000,000 project acquired 1/1/86 with original basis allocated $150,000 to land, $50,000 to furniture, fixtures & equipment, and $800,000 to real property.

Financing: $250,000 initial equity and 30-year conventional mortgage for $750,000 at 13.5% interest.

Income and Expenses: Net operating income of $100,000 increasing at 5% per year.

Current Law Depreciation: 18 years ACRS for real property, 5 years ACRS for personal property.

Projected Value: Starting Value of $1,000,000 increasing at 5% per year.

Expenses of Sale: Selling expenses of 6% upon ultimate sale.

Ownership: Individual taxpayer(s) in a marginal tax bracket of 50% under current law.

2/ Internal Rate of Return: the discount rate at which the present value of all future after-tax benefits equal the initial capital contribution.

3/ Net Present Value: The sum of all future after-tax benefits less initial capital contribution, discounted to 1/1/86 at 11% per annum.

4/ Long-Term Rent: The percentage amount that rents would have to change by, all else being equal, for 10-year IRR to be restored to the level under current law.

5/ Change in Value: The percentage change in the value of the property that would likely occur in the short-run prior to changes in rents.

Note: For purposes of indexing capital assets, adjusted basis, and interest indebtedness a 5 percent inflation rate was assumed.

Table 7

Preliminary Macroeconomic Impacts of the Reagan Tax Reform Proposal
(% Change from Baseline Except where Otherwise Noted)

	1986	1987	1988	1989	1990	1995
Real GNP	0.2	- 0.1	- 0.3	- 0.7	- 1.0	- 2.0
Employment	0.1	0.0	- 0.1	- 0.2	- 0.4	- 1.0
Inflation (% point change)	0.0	0.0	0.0	- 0.1	- 0.1	- 0.1
Real Consumption	0.5	0.5	0.3	0.2	0.0	- 0.2
Real Fixed Investment	- 0.7	- 2.0	- 2.7	- 3.0	- 2.8	- 3.1
Residential	- 3.0	- 5.0	- 7.0	- 8.0	- 8.0	- 8.0
Nonresidential	0.0	- 1.2	- 1.5	- 1.6	- 1.3	- 1.7
Equipment	0.3	- 1.5	- 1.9	- 1.9	- 1.4	- 1.8
Structures	- 0.2	- 0.4	- 0.6	- 0.8	- 1.0	- 1.5
Housing Starts	- 6.2	- 8.0	- 8.0	- 7.9	- 7.5	- 7.2
Single Family	- 5.2	- 5.7	- 6.0	- 5.9	- 5.5	- 5.2
Multi-Family	- 8.0	- 8.5	- 9.0	- 8.9	- 8.5	- 8.0
Existing Home Sales	- 8.0	- 9.0	- 8.5	- 8.0	- 7.5	- 7.0
Value of the Stock of Single Family Homes	-10.0	-10.2	-10.7	-11.2	-11.5	-10.5
Effective Mortgage Rate (% point change)	0.28	0.34	0.30	0.36	0.40	0.85
Aaa Bond Rate (% point change)	0.27	0.29	0.28	0.33	0.35	0.77
3 Month T-Bill Rate (% point change)	0.25	0.26	0.30	0.28	0.40	1.00
Rental Cost of Capital						
Structures	2.4	2.5	2.4	2.3	2.2	2.0
Equipment	10.2	8.2	7.9	7.9	7.8	7.8
Federal Deficit	3.0	5.0	8.0	10.0	12.0	24.0
Federal Revenues	- 0.8	- 1.3	- 2.0	- 2.5	- 3.0	- 6.0
Personal Tax (% of total)	- 6.1	- 6.1	- 5.9	- 4.3	- 3.5	- 3.3
Corporate Tax (% of total)	38.2	24.7	26.2	23.8	25.7	1.6

Table 7

REAL ESTATE AND FINANCIAL MARKETS

	QUARTERS								YEARS				
	Actual	Forecast							Actual		Forecast		
	85:1	85:2	85:3	85:4	86:1	86:2	86:3	86:4	1983	1984	1985	1986	1987
REAL ESTATE MARKETS													
Total Single-Family Home Sales (thousands) (single-family resales and completions)	4,058	4,158	4,290	4,374	4,386	4,376	4,297	4,101	3,750	3,936	4,220	4,290	4,041
Percent Change -- Year Ago	-1.9	2.4	15.2	14.3	8.1	5.3	0.2	-6.2	42.4	5.0	7.2	1.7	-5.8
Existing Single-Family Home Sales (thousands)	2,970	3,106	3,140	3,190	3,235	3,200	3,150	3,015	2,716	2,866	3,100	3,150	2,950
Percent Change - Year Ago	1.9	4.5	13.6	13.4	8.9	3.0	0.3	-5.5	36.5	5.5	8.2	1.6	-6.4
Dollar Volume (billions)	261.3	276.4	279.2	277.0	286.8	289.4	286.4	268.4	224.2	247.1	273.5	282.7	273.9
Existing Home Prices - Median ($1000's)	73.8	75.5	76.0	74.6	76.6	78.4	79.1	77.6	68.8	72.3	75.0	77.9	81.3
Percent Change - Year Ago	3.6	3.8	3.8	3.7	3.7	3.9	4.1	4.0	3.2	3.5	3.7	3.9	4.3
Monthly Mortgage Payment (P&I, 80%, 30 yr.)	641	640	611	587	597	616	622	610	633	665	620	611	669
Percent of Median Family Income	29	29	27	26	26	26	26	25	32	31	28	26	27
Private Housing Starts (thousands)	1,793	1,815	1,887	1,910	1,909	1,840	1,807	1,745	1,703	1,766	1,851	1,800	1,755
Percent Change - Year Ago	-7.9	-2.3	13.5	19.5	0.9	1.4	-4.2	-8.6	61.0	3.8	4.8	-2.8	-2.5
Single-Family	1,122	1,084	1,185	1,220	1,186	1,212	1,183	1,119	1,066	1,103	1,153	1,175	1,124
Percent of Total	62.6	59.7	62.8	63.9	65.6	65.9	65.5	64.1	62.6	62.4	62.3	65.3	64.1
Multi-Family	671	731	702	689	623	628	624	626	637	664	698	625	631
Percent of Total	37.4	40.3	37.2	36.1	34.4	34.1	34.5	35.9	37.4	37.6	37.7	34.7	35.9
Mobile Home Shipments	277	292	300	297	283	288	285	282	296	295	291	284	289
New Single-Family Home Sales (thousands)	654	630	642	659	648	633	606	561	627	637	646	612	505
Percent Change - Year Ago	-4.2	-0.4	4.6	6.8	-0.8	0.4	-5.6	-14.9	49.9	1.5	1.5	-5.3	-17.5
New Home Prices - Median ($1000's)	83.1	83.9	84.8	85.7	86.6	88.1	89.3	90.7	75.5	80.0	84.4	88.7	93.9
Percent Change - Year Ago	6.6	4.2	4.3	6.7	4.5	5.0	5.4	5.8	8.9	6.0	5.4	5.2	5.8
New Home Prices--Mean ($1000's, Quality Adjusted)	96.2	96.3	97.8	98.5	99.5	100.1	102.0	103.1	89.7	93.7	97.2	101.2	106.0
Percent Change - Year Ago	5.7	3.1	2.8	3.4	3.4	3.9	4.3	4.7	2.1	4.5	3.8	4.1	4.7
NAR Affordability Index	88.4	89.1	90.8	95.0	93.5	93.0	94.7	98.7	82.0	86.2	90.8	95.0	95.0
New Mortgage Commitments ($ billions)	183.4	181.8	182.1	177.8	171.1	168.9	162.8	158.1	163.4	192.8	181.3	165.2	168.3
Percent Change - Year Ago	-4.1	-11.9	1.8	-8.6	-6.7	-7.1	-10.6	-11.1	152.1	18.0	-6.0	-8.9	1.9
Mortgage Debt Outstanding ($ billions)	2,127	2,219	2,313	2,401	2,325	2,276	2,250	2,236	1,755	1,957	2,265	2,272	2,248
Homeowners' Equity ($ billions)<1>	1,468	1,471	1,490	1,514	1,541	1,573	1,606	1,639	1,553	1,503	1,486	1,590	1,716
Housing Inventory (millions)	92.0	92.4	92.7	93.1	93.5	93.9	94.3	94.7	89.6	91.1	92.6	94.1	95.5
Rental Vacancy Rate (%)	6.3	6.0	5.9	5.7	5.7	5.8	5.7	5.7	5.6	5.9	5.9	5.7	5.6
Unsold New Homes (% of sales)	53.6	49.8	46.4	47.0	49.9	51.4	54.0	57.3	42.9	50.7	49.2	53.2	58.0
Office Vacancy Rate (%)<2>	10.7	10.4	10.1	9.9	9.7	9.5	9.4	9.3	11.7	13.9	10.3	9.5	9.1
Industrial Vacancy Rate (%)<2>	4.0	3.9	3.8	3.8	3.7	3.7	3.6	3.6	4.9	4.7	3.9	3.6	3.4
New Commercial Building Construction (% Ch Value)	33.8	8.8	0.8	0.3	-0.5	-3.1	-3.7	-1.9	-4.2	37.0	22.6	-0.9	0.3
New Industrial Building Construction (% Ch Value)	6.2	1.7	9.1	3.1	-1.2	0.9	4.6	12.4	-25.7	11.6	6.6	2.9	16.0
FINANCIAL MARKETS													
Money Supply													
M1 (% change)(FED Target 4-7%)	10.9	7.0	5.7	5.2	5.7	5.4	5.4	5.7	11.2	6.9	6.6	5.6	5.2
M1 Velocity (% change)	-4.1	-1.8	-0.8	0.5	0.5	1.1	1.5	1.9	-3.2	3.7	-0.4	0.5	2.5
M2 (% change)(FED Target 6-9%)	12.5	4.4	8.9	9.2	6.3	5.6	6.7	5.8	12.5	7.9	8.7	6.9	6.1
M2 Velocity (% change)	-5.5	0.6	-3.7	-3.2	-0.1	0.8	0.3	1.7	-4.4	2.7	-2.3	-0.8	1.6
Monetary Base (% change)	6.9	4.7	5.3	4.4	4.7	5.3	5.6	5.7	9.5	8.1	5.8	5.0	5.9
Flow of Funds (NIA Basis)													
Sources (total:gross savings)	664	653	658	676	703	717	726	739	479	653	663	721	791
Private													
Personal Savings	118	159	131	136	142	149	153	154	118	156	136	149	166
Savings Rate	4.5	5.8	4.8	4.9	5.0	5.2	5.2	5.2	5.0	6.1	5.0	5.1	5.3
Gross Business Savings	548	554	559	566	570	580	587	595	454	519	557	583	619
Government													
Federal	-161	-223	-206	-205	-190	-197	-202	-198	-179	-176	-199	-197	-188
State and Local	54	55	55	52	51	51	52	52	44	53	54	51	57
Foreign (current account deficit)	106	109	119	127	130	135	136	136	42	102	115	134	137
Uses (total:gross investment)	651	648	652	668	686	693	706	724	472	638	655	702	772
Nonresidential Investment													
Equipment	290	294	297	299	305	310	320	331	223	275	295	316	359
Structures	165	168	169	169	170	173	177	182	130	150	168	175	195
Residential Investment	155	159	168	174	175	177	177	177	132	154	164	176	181
Inventory Investment	41	26	16	25	39	34	32	34	-13	58	27	35	36
Value of the U.S. Dollar (Weighted by Trade) (Base=1967)	1.200	1.170	1.129	1.098	1.073	1.056	1.041	1.026	1.024	1.095	1.149	1.049	0.996
Percent Change	21.5	-9.8	-13.2	-10.5	-8.7	-8.2	-5.7	-5.4	3.7	6.9	5.0	-8.7	-5.0
Selected Interest Rates (Percent)													
Mortgage Commitment Rates													
30 Year,Fixed-Rate	13.3	13.0	12.3	12.0	11.9	12.0	12.0	12.0	13.9	14.2	12.7	12.0	12.6
Real Mortgage Rate (30 yr. avg. is 4.5%)	7.7	10.4	9.6	8.6	8.2	8.3	8.1	7.8	10.2	10.5	9.1	8.1	8.5
1 Year ARM (without buy-down)	11.1	10.2	10.0	10.4	10.5	10.5	10.5	10.9	11.3	12.6	10.4	10.6	11.1
Real Mortgage Rate	5.5	7.7	7.3	7.1	6.8	6.8	6.6	6.7	7.5	9.0	6.9	6.7	6.9
Corporate Bond Rate (AAA)	12.3	11.7	10.9	10.3	10.4	10.3	10.4	10.4	12.0	12.7	11.3	10.4	10.7
Government Bond Rate	11.8	11.1	10.0	9.9	9.8	9.9	9.7	9.9	11.3	12.5	10.7	9.8	10.4
Real Government Bond Rate (30 yr. avg. is 2.1%)	6.2	8.5	7.3	6.5	6.1	6.2	5.8	5.7	7.6	8.9	7.1	5.9	6.3
Federal Funds Rate	8.5	7.9	7.7	7.9	8.2	8.3	8.5	8.8	9.1	10.2	8.0	8.4	9.0
3 Month Treasury Bill Rate	8.2	7.5	7.3	7.6	7.7	7.7	7.8	8.3	8.6	9.5	7.6	7.9	8.4
Real 3 Month T-Bill Rate (30 yr. avg is 1.2%)	2.6	4.9	4.6	4.3	4.0	4.0	3.9	4.0	4.8	5.9	4.1	4.0	4.3
1 Year Treasury Bill Rate	9.4	8.5	8.3	8.7	8.8	8.8	8.8	9.2	9.6	10.9	8.7	8.9	9.4
Real 1 Year T-Bill Rate (30 yr. avg is 1.7%)	3.8	6.0	5.6	5.4	5.1	5.1	4.9	5.0	5.8	7.3	5.2	5.0	5.2
Commercial Paper Rate	8.5	7.8	7.6	7.9	8.2	8.3	8.5	8.8	8.9	10.1	8.0	8.4	8.9
Rate on Money Market Fund Shares	8.6	7.9	7.7	8.1	8.3	8.4	8.6	8.9	9.0	10.3	8.0	8.5	9.1
Prime Rate	10.5	10.2	9.6	9.6	9.7	9.8	9.7	10.0	10.8	12.0	10.0	9.8	10.8

<1> Homeowners Equity has been adjusted to correspond to the Federal Reserve's Flow of Funds data.
<2> Historical data courtesy of Coldwell Banker.

...del developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
...sumptions and simulations by Dr. Jack Carlson, Dr. Richard Peach and Janemarie Mulvey

Table 8

U.S. ECONOMIC OUTLOOK

	QUARTERS							YEARS				
	Actual	Forecast						Actual		Forecast		
	85:1	85:2	85:3	85:4	86:1	86:2	86:3	86:4	1983	1984	1985	1986	1987
AGGREGATE ECONOMY													
Gross National Product ($ billions)	3,817	3,865	3,911	3,958	4,026	4,090	4,160	4,237	3,305	3,663	3,890	4,129	4,450
Percent Change	6.4	5.1	4.8	5.7	6.3	6.5	7.0	7.6	7.7	10.8	6.2	6.1	7.8
Percent Change (without inflation)	0.7	2.5	2.1	2.3	2.5	2.7	3.0	3.3	3.7	6.8	2.5	2.6	3.5
Consumption	5.2	2.6	3.4	2.2	1.9	2.4	2.6	2.6	4.8	5.3	3.6	2.4	3.0
Durables	8.7	3.0	5.1	1.1	-0.2	2.5	3.1	3.6	12.1	13.1	6.2	2.1	4.3
Nondurables	3.5	2.7	3.2	2.2	1.9	2.1	2.4	2.2	3.7	4.6	2.3	2.3	2.5
Services	5.3	2.4	2.9	2.6	2.7	2.7	3.0	2.9	3.4	3.2	3.7	2.7	3.0
Residential Investment	1.4	7.5	19.3	10.7	-0.6	-1.4	-4.0	-3.5	41.7	12.2	3.0	3.4	-1.7
Nonresidential Investment	2.6	5.4	1.5	-0.1	0.2	5.7	8.1	8.3	2.5	19.6	6.3	3.1	8.4
Structures	16.8	5.4	-0.2	-2.7	-2.2	1.2	5.8	5.5	-7.8	15.6	9.5	0.5	6.3
Equipment	-2.5	5.5	2.2	0.9	1.2	7.4	8.9	9.4	7.3	21.5	5.1	4.2	9.3
Exports	-6.1	2.1	3.8	6.4	6.7	7.3	9.3	10.0	-5.6	4.7	0.4	6.7	8.6
Imports	31.3	-1.5	8.0	7.1	5.3	4.6	4.0	5.0	7.6	27.0	7.9	5.2	4.9
Government Purchases	-1.8	6.0	2.9	0.5	0.2	4.4	0.1	0.2	-0.3	3.5	3.9	1.7	1.2
Consumption (% of GNP)	65.4	65.4	65.6	65.6	65.5	65.5	65.4	65.4	65.8	64.8	65.5	65.5	65.2
Residential Investment (% of GNP)	3.6	3.6	3.8	3.8	3.8	3.8	3.7	3.6	3.5	3.7	3.7	3.7	3.5
Nonresidential Investment (% of GNP)	12.9	13.0	13.0	12.9	12.8	12.9	13.1	13.2	11.1	12.5	13.0	13.0	13.7
Structures (% of GNP)	3.7	3.7	3.7	3.7	3.6	3.6	3.6	3.7	3.2	3.5	3.7	3.6	3.7
Equipment (% of GNP)	9.2	9.3	9.3	9.3	9.2	9.3	9.5	9.6	7.9	9.0	9.3	9.4	9.9
Inventory Change ($ billions)	40.6	26.2	17.8	25.3	38.6	33.6	32.5	34.3	-13.5	58.2	27.5	34.7	36.3
Mfg. Capacity Utilization Rate (%)	81	80	80	80	80	81	81	81	75	82	81	81	82
Auto Sales (millions of units)	10.8	10.8	10.8	10.7	10.5	10.5	10.6	10.6	9.2	10.4	10.6	10.5	10.9
Domestic (% of total)	78.0	77.3	73.3	72.1	73.4	72.3	69.0	67.2	74.0	76.4	75.2	70.5	67.4
Imported (% of total)	22.0	22.7	26.7	27.9	26.6	27.7	31.0	32.8	26.0	23.5	24.8	29.5	32.6
Manufacturing Industrial Production (% change)	0.6	0.2	3.4	2.9	3.1	3.6	2.7	4.2	7.8	11.2	1.8	3.0	5.2
Common Market	3.7	2.3	3.0	2.2	2.1	2.5	1.5	3.1	0.9	3.2	2.8	2.3	1.3
Japan	-2.7	2.2	4.0	5.7	11.7	3.0	0.7	1.6	3.5	11.0	4.0	5.3	1.0
Employment(millions)(civilian:household basis)	106.7	107.2	107.6	107.9	108.2	108.5	108.8	109.1	100.8	105.0	107.3	108.6	110.9
Percent Change	3.0	1.6	1.4	1.3	1.1	1.1	1.2	1.3	1.3	4.1	2.2	1.2	2.1
Unemployment Rate (%) (civilian),	7.3	7.4	7.5	7.6	7.7	7.8	7.8	7.8	9.6	7.5	7.5	7.8	7.6
Personal Income per Household (average)<1>	40,045	40,439	40,865	41,384	41,979	42,635	43,287	43,924	35,415	38,526	40,666	42,956	45,754
Percent Change -- Year Ago (w/o inflation)	3.4	2.2	1.7	1.4	1.3	1.8	2.0	1.9	1.5	5.4	2.2	1.8	2.4
Personal Taxes per Household (average)	7,724	7,291	7,574	7,686	7,831	7,984	8,115	8,265	6,478	6,956	7,554	8,049	8,656
Percent Change -- Year Ago (w/o inflation)	10.3	1.1	4.2	3.6	-1.6	6.8	3.4	3.5	-3.0	3.5	4.0	2.9	3.3
Percent of Personal Income	20.2	18.7	19.4	19.4	19.5	19.6	19.6	19.7	19.1	18.8	19.4	19.6	19.3
Disposable Income per Household (average)	32,321	33,208	33,292	33,708	34,148	34,651	35,172	35,659	28,938	31,571	33,132	34,907	37,097
Percent Change--Year Ago (w/o inflation)	2.0	2.8	1.4	1.2	2.2	0.8	1.8	1.7	2.5	5.7	1.8	1.6	2.1
Household Interest Payments (% of total)	10.4	10.4	10.8	10.7	10.6	10.5	10.5	10.0	9.8	10.4	10.6	10.4	9.5
Net Worth Per Household (average)	81,272	82,984	84,409	85,925	87,432	88,822	90,049	91,362	73,838	77,705	83,648	89,417	95,696
Percent Change--Year Ago (w/o inflation)	3.4	4.7	3.4	4.0	4.4	3.6	2.9	2.4	7.6	1.4	3.9	3.3	2.8
Consumer Price Inflation (CPI)	3.3	3.6	3.4	3.7	3.9	4.0	4.2	4.2	3.2	4.3	3.5	3.6	4.3
Gross National Product Inflation (GNP Deflator)	5.6	2.6	2.7	3.4	3.7	3.7	3.9	4.2	3.8	3.8	3.6	3.5	4.1
Personal Consumption Inflation	3.3	3.2	3.0	3.4	3.8	3.9	4.1	4.3	3.7	3.2	3.1	3.7	4.0
Residential Construction Inflation	4.1	3.0	3.3	3.3	4.1	4.9	4.9	5.0	1.7	3.9	3.6	4.1	4.7
Nonresidential Construction Inflation	2.6	1.7	2.9	3.3	4.3	4.4	4.5	4.9	-1.0	0.3	2.1	3.9	4.5
Producers Price Inflation (WPI)	-2.0	0.9	0.7	2.5	2.3	2.6	3.0	3.6	1.3	2.4	0.0	2.2	3.6
Compensation per Manhour (% change)	6.0	3.9	4.1	4.2	6.1	5.3	5.4	5.7	4.6	4.2	4.4	5.1	5.4
Productivity (% change)	-1.5	1.7	1.5	1.6	1.0	0.9	1.5	1.6	3.4	2.7	0.8	1.3	1.9
Unit Labor Cost (% change)	7.4	2.2	2.5	2.6	5.0	4.3	3.8	3.8	1.3	1.4	3.5	3.7	3.5
Unit Capital Cost (% change)	4.1	3.8	3.5	3.1	2.7	2.4	2.2	2.0	6.9	4.6	3.6	2.3	1.9
Before Tax Corporate Profits ($ billions)<2>	231	224	221	221	223	224	228	233	213	243	224	227	260
Corporate Tax Liability	91	85	83	83	85	85	86	88	86	98	85	86	102
After Tax Profits	140	139	138	139	138	139	142	145	127	146	139	141	159
Inventory Valuation Adjustment	1	-3	-5	-10	-12	-12	-15	-18	-11	-6	-4	-14	-21
Capital Consumption Adjustment	69	74	78	84	86	89	90	92	33	56	77	89	85
Profits from Current Production (with IVA, CCA)	210	210	211	213	212	216	217	219	149	196	211	216	223
Adjusted for Inflation (84:3 base)	206	205	204	205	202	203	203	202	156	197	205	202	201
Percent Change - Year Ago	9.3	3.8	2.1	1.0	-1.9	-0.7	-0.6	-1.3	46.0	26.5	4.0	-1.1	-0.8
Per Unit of Output (% of GNP)	5.5	5.4	5.4	5.4	5.3	5.3	5.2	5.2	4.5	5.3	5.4	5.2	5.0
Effective Corporate Tax Rate (%)<2>	29	28	27	27	28	27	28	28	34	32	28	28	31
Federal Tax Receipts (Unified basis)	696	809	735	872	665	913	756	721	613	683	728	794	833
Percent of GNP	18.2	20.9	18.8	16.9	16.5	22.3	18.2	17.0	18.6	18.7	18.7	18.5	18.7
Federal Expenditures (Unified basis)	919	941	954	954	964	978	989	1,008	803	868	942	985	1,043
Percent of GNP	24.1	24.4	24.4	24.1	23.9	23.9	23.8	23.8	24.3	23.7	24.2	23.9	23.4
Surplus or Deficit (Unified basis)	-223	-132	-219	-282	-299	-65	-233	-286	-190	-184	-214	-221	-210
% of GNP	5.8	3.4	5.6	7.1	7.4	1.6	5.6	6.8	5.8	5.0	5.5	5.3	4.7
% of Personal Savings	186.3	83.2	167.5	207.9	210.7	43.7	151.9	186.4	158.1	117.2	161.7	148.2	125.1
% of Net Domestic Savings	74.9	38.9	70.8	90.7	95.6	20.2	71.5	88.1	60.0	56.5	68.8	68.9	61.1

<1> Includes personal contributions for social insurance.
<2> Adjusted to include impact of windfall profits tax on domestic crude oil production.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Dr. Richard Peach, and Janemarie Mulvey.